VIRGINIA COMMUNITY COLLEGE SYSTEM

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2006

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Community College System for the year ended June 30, 2006, found:

- the financial statements are presented fairly, in all material respects;

- internal control matters that we consider reportable conditions; however, we do not consider any of these to be material weaknesses;

- instances of noncompliance required to be reported that are described fully in the section of the report entitled "Internal Control and Compliance Findings and Recommendations"; and

- adequate corrective action of prior audit findings except Thomas Nelson has not retained documentation for Small Purchase Charge Card purchases and Central Virginia has not removed disposed assets from its records.

"Internal Control and Compliance Findings and Recommendations" includes our recommendation that the Virginia Community College System improve its risk management and contingency plans, which will enable the System to develop and maintain an effective and efficient security program that protects its information and maximizes confidentiality, integrity, and availability.

-TABLE OF CONTENTS-

	Pages
AUDIT SUMMARY	
INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS	1-6
MANAGEMENT'S DISCUSSION AND ANALYSIS	7-14
FINANCIAL STATEMENTS:	
Statement of Net Assets	16-17
Statement of Revenues, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20-21
Notes to Financial Statements	23-43
INDEPENDENT AUDITOR'S REPORTS:	
Report on Financial Statements	44-45
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	45-46
SYSTEM RESPONSE TO INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATION	47-58
SYSTEM OFFICIALS	59
COLLEGES OF THE VIRGINIA COMMUNITY COLLEGE SYSTEM AND COMMUNITY COLLEGE PRESIDENTS	60

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Risk Management and Contingency Plans

While the System Office is currently rewriting its standards to align with the Commonwealth's new security standard, SEC 501, the System Office's standard lacks certain details that it needs to incorporate into its new standards. During this process, the System Office needs to properly identify its critical business functions in its Business Impact Analysis, as they are the foundation on which to build a security program. In addition, to strengthen risk mitigation and ensure the continuation of essential operations, the System Office needs to expand its Risk Assessment, Business Continuity Plan, and Incident Response Plan to include the following details.

Risk Assessment

Include environmental and natural threats and calculate occurrence probabilities.

Business Impact Analysis

Properly identify critical business functions needed to fulfill the System Office's mission, the systems that support them, and maximum allowable downtimes.

Business Continuity Plan/Disaster Recovery Plan

Devise interim manual processes for essential business functions and prioritize the restoration of services.

Incident Response Plan

Develop a plan to respond to suspected or known breaches to security safeguards and include mitigation and notification procedures,

In order to improve the System Office's risk management and contingency plans, management will need to address these recommendations, dedicate the necessary resources, and ensure that appropriate components are included in the security awareness training program. Management should take into account the detailed specifications included in the Commonwealth's new security standard, SEC501.

Develop, Approve, and Implement Written Standards and Procedures for the Firewall

The System Office makes unauthorized changes to its firewall and allows unfiltered traffic through its firewall after users connect remotely to the Virginia Community College System network due to inadequate access rules in the firewall configuration file. These rules violate the principle of least privilege and threaten the security of the system and the data it holds.

The System Office does not have adequate formal written standards and procedures that require periodic review of the firewall, assignment of responsibility, and management approval for changes. In addition, we found inconsistencies between the documented firewall change procedures and the actual practices performed within the System Office.

The System Office should develop, approve, and implement formal written standards and procedures for the firewall; update the firewall change policy to include management approval; reconcile its policies with its procedures; and include this information in its security awareness training program.

Comply with the Commonwealth's Security Standard, SEC2001, and VCCS standards

Applicable to: Danville Community College
Eastern Shore Community College
Rappahannock Community College
Wytheville Community College

We found that Danville Community College, Eastern Shore Community College, Rappahannock Community College, and Wytheville Community College do not comply with the Commonwealth's security standard, SEC2001, for information technologies. In addition, the colleges do not follow the standards issued by the System Office. This places the colleges' systems and the information they contain at risk. The colleges cannot use the System Office's published standards as college policy. The standards set requirements that each college must follow when creating their Information Security Plan. We recommend that the colleges improve the following information system security areas in order to comply with the Commonwealth and System Office's security standards and to mitigate their risk.

- Security awareness training program
- Risk Assessment
- Business Impact Analysis
- Business Continuity Plan
- Disaster Recovery Plan
- Policies, procedures, and other required documentation

In order to improve the colleges' information security plans, the colleges will need to address the recommendations above and dedicate the necessary resources to develop, document, and implement such plans.

Improve Accounts Receivables Reporting

Applicable to: Thomas Nelson Community College

Thomas Nelson Community College does not have procedures in place to properly report accounts receivables. The college has used the same allowance for doubtful accounts for the past two years without verifying the reasonableness of the allowance compared to historical write off data. The college has also failed to write off accounts, which are aged and determined uncollectible.

Understating accounts receivables could cause a possible material misstatement to the financial statements, which under the Statement on Auditing Standards (SAS) 112, effective in fiscal year 2007, is a material weakness in internal controls. However, based on our estimates, the current understatement is immaterial.

We recommend that Thomas Nelson establish reporting procedures to track student receivables in order to correctly include them on the Virginia Community College System's consolidated financial statements. The college should develop a calculation for a reasonable allowance for doubtful accounts, using either historical data or the aging of its total receivables. Thomas Nelson's policies should also include procedures on researching receivable accounts to determine their validity and writing them off when determined uncollectible.

Retain Required Documentation for Small Purchase Charge Cards

Applicable to: Thomas Nelson Community College

Thomas Nelson Community College did not retain charge card purchases documentation for two of the four individuals tested having Small Purchase Charge Cards. For one cardholder, Thomas Nelson could not find purchase documentation for the months of July 2005, August 2005, and March 2006. For the other cardholder, Thomas Nelson could not find purchase documentation for the months of July 2005 and August 2005.

Without purchase documentation, it is not possible to determine if the college is following state guidelines on the use of these charge cards. The Department of Accounts provides policies and procedures for the Small Purchase Charge Card Program, which includes individual transaction limits, monthly spending limits per individual, reconciliation procedures, and retention policies. Without the purchase documentation for the individuals requested, we could not determine if the college is complying with any of these policies and procedures.

We recommend that the college provide training on the use of the Small Purchase Charge Cards to ensure that cardholders are aware of all college and state policies and procedures. The college must also retain the monthly purchase documentation, including purchasing logs.

Ensure Capital Asset Inventory Records are Accurate

Applicable to: Central Virginia Community College

Central Virginia Community College did not remove four information technology assets from its capital asset inventory in the Fixed Asset Information System (FAIS) after transferring the assets to the Central Virginia Training Center in fiscal year 2004. When Central Virginia conducted an inventory in March 2006, they did not include all asset locations and again missed identifying disposed assets.

Central Virginia did not realize the mistake until the auditors could not locate the assets during the audit. Central Virginia had a similar finding for properly recording disposed assets in the prior audit.

The Virginia Community College System uses FAIS to derive the equipment totals for the annual financial statements and for tracking purposes. Therefore, policies and procedures require surplus assets to be removed from the fixed asset system and appropriate documentation completed and retained for audit purposes. Since the college had not removed the assets from FAIS, the college immaterially overstated the equipment value and the accumulated depreciation in the footnotes accompanying the annual financial statements. Central Virginia should improve its procedures over identifying and recording surplus assets, preparing and retaining disposal documentation, and ensuring that all locations are included in inventory counts.

Formalize Policies and Procedures and Improve Internal Controls over Student Financial Aid:

Applicable to: Central Virginia Community College

During fiscal year 2006, we found many issues with processing and administrating of student financial aid because of inadequate internal controls and non-compliance with student financial aid regulations, since there are no formal policies and procedures at Central Virginia Community College. We found the following issues.

- The Student Financial Aid Office used the last date of classes while the Community College System recommended using the last day of exams for determining the 60 percent enrollment threshold and the Title IV calculations. There is a seven-day difference in these two dates. Although 34 CFR Section 668.3 does allow an institution to use either the last day of classes or the last day of exams, the Student Financial Aid Department should consider using the last day of exams in determining the 60 percent enrollment threshold and performing Title IV calculations. This allows for consistency within the Community College System and is less restrictive on the student.

- The Admissions/Records Office does not have formal policies and procedures for reporting enrollment and payment changes to the National Student Loan Clearinghouse. See finding entitled "Report Payment Data to NSLDS Timely" for details.

- Central Virginia incorrectly hard-coded the 60 percent enrollment date for Spring 2006 into PeopleSoft thus impacting Title IV calculations. The date was off by one day resulting in each student's aid being incorrect by two to ten dollars.

- The Financial Aid Officer did not retain documentation to support amounts reported on the fiscal year 2005 Fiscal Operations Report and Application to Participate (FISAP). Central Virginia produced a report from PeopleSoft that supported the amounts in total reported on the FISAP, but could not support the distribution of the funds between programs and by type of student reported on the FISAP.

The Financial Aid Officer should perform a thorough analysis of all critical Student Financial Aid functions and alter controls as needed to ensure the accurate and timely processing and reporting of student financial aid. The Financial Aid Officer should formally document policies and procedures over all student financial aid processes.

The Financial Aid Officer should coordinate with the Admissions/Records Office to ensure that dates critical to student financial aid operations are accurate when hard-coded into the system. The Financial Aid Officer should retain supporting documentation related to figures reported on the annual FISAP report. By retaining all necessary documentation, the Financial Aid Office provides for an adequate audit trail.

At this time, the number of Title IV calculations is minimal. Therefore, once Title IV calculations are completed, the Financial Aid Officer should perform a thorough review of calculations for accuracy and process reports and refunds quickly after that review.

The management of Central Virginia should continuously monitor business operations and internal controls in the Student Financial Aid Department to ensure compliance with Federal regulations.

Report Payment Data to NSLDS Timely

Applicable to: Central Virginia Community College
Virginia Highlands Community College

During fiscal year 2006, Central Virginia Community College and Virginia Highlands Community College did not report payment information to the National Student Loan Data System (NSLDS) timely. During the audit, we found that Central Virginia reported payment data for all three students tested more than five days after the 45-day period. Central Virginia reported student data to NSLDS 39 to 59 days past due. Virginia Highlands reported payment data for three out of six students more than five days after the 45-day period. Virginia Highlands reported student data to NSLDS 11 to 17 days past due.

According to 34 CFR 668.22(h)(4), the institution must report overpayments to NSLDS within a few days of the end of the 45-day period.

The Student Financial Aid Offices at Central Virginia and Virginia Highlands should enhance existing procedures to ensure timely reporting to NSLDS. The Financial Aid Office should ensure that personnel adhere to established procedures and perform reviews. Not updating student status changes within the required guidelines could impact a student's Title IV eligibility.

Report Payment Data to COD Timely

Applicable to: Central Virginia Community College

During fiscal year 2006, Central Virginia Community College reported payment data to the Common Origination and Disbursement (COD) files in an untimely manner. During the audit, the auditor found that Central Virginia did not report funds for all 30 students tested to COD within a 30-day period. Central Virginia did not adjust these student accounts after disbursing funds. In addition, the auditor determined that COD disbursement dates and fund amounts did not match to PeopleSoft for any of the 30 students tested.

According to 34 CFR 690.83, Central Virginia must report student payment data to the Common Origination and Disbursement files within 30 calendar days: 1) after the college makes a payment, or 2) becomes aware of the need to make a change on previously submitted student payment data.

Central Virginia should comply with the 30 day regulation set forth by the Department of Education. The Student Financial Aid Office should enhance existing policies and procedures to ensure timely reporting to COD. The Student Financial Aid Office should reconcile and update the COD and PeopleSoft Pell data monthly.

Properly Calculate Title IV Refunds and Return Funds Timely

Applicable to: Central Virginia Community College

During fiscal year 2006, Central Virginia Community College's internal controls in the Student Financial Aid (SFA) Office did not ensure accuracy in Title IV reporting and timely return of funds to the Department of Education. Based on student samples for fall 2005 and spring 2006, we found that Central Virginia charged 15 out of 20 (75 percent) students the full amount of Pell overpayment rather than the 50 percent for which Title IV regulations hold them responsible. Central Virginia's calculation required students to return $1,953 more in aid than the regulations require. In addition, for one student for fall 2005, the

Financial Aid Officer used the institution determination date rather than the date of withdrawal for computing the Title IV calculation and reversed the earned and unearned aid percentages thus causing the Title IV calculation outcome to be incorrect and reversed. As a result, Central Virginia did not return the correct amount of funds to the Department of Education.

Secondly, based upon student samples tested for Spring 2006, Central Virginia did not return funds for six out of 10 (60 percent) students timely to the Department of Education. Central Virginia returned funds from two to 19 days late. There are no questioned costs reported because the college has returned all identified funds or the amount was less than $10,000.

According to 34 CFR 668.22 and the Student Financial Aid Handbook, the student must return or repay any unearned aid to the Title IV grant program as an overpayment of the grant except that, to assist with expenses that may have already been paid by the student, the student may keep 50 percent of the grant assistance that (s)he would have otherwise been required to pay. The institution must return the Title IV funds for which it is responsible as soon as possible, but no later than 30 days after the date of the institution's determination that the student withdrew.

The Financial Aid Officer should establish formal policies and procedures for student financial aid operations, enhance existing internal controls to ensure accuracy in reporting Title IV data, and ensure the return of all Title IV funds to the Department of Education within the specified guidelines. The Financial Aid Officer should properly define and disseminate the policies and procedures and monitor controls to ensure that financial aid staff adhere to the controls.

A failure to comply with the Federal regulations and the Student Financial Aid Handbook could significantly affect those students involved in the Title IV process as well as financial aid available for disbursement to other eligible students.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The following discussion and analysis provides an overview of the financial position and activities of the Virginia Community College System (VCCS) for the year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and footnotes.

The VCCS financial statements have been prepared in accordance with GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements 37, 38 and 39. The three required financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

Beginning in fiscal year 2004, the VCCS adopted GASB Statement 39, *Determining Whether Certain Organizations are Component Units.* Accordingly, the community college foundations are included in the accompanying financial statements as a discrete component unit in a separate column. The following discussion and analysis does not include the financial condition and activities of the foundations.

Financial Highlights

The following represents significant financial highlights for the VCCS in fiscal year 2006:

- An additional $16 million in general funds were provided by the 2005 General Assembly to address enrollment growth and base operating needs of the VCCS. This amount reflects a portion of general fund support needed to provide adequate base support of the VCCS core academic functions. These additional funds will allow the VCCS to serve more students, retain existing students more effectively, increase the number of students receiving a degree or certificate, and enhance the quality and rigor of academic programs.

- Additional general funds were provided by the General Assembly for 5.4 percent increases in faculty salaries, 4 percent increases for adjunct faculty salaries, and 3 percent increases for classified employee salaries, all effective November 25, 2005.

- $7.6 million in general funds were provided by the General Assembly to offset a portion of the operating costs for the Medical Education Campus of Northern Virginia Community College.

- $25 million was appropriated to supplement already approved capital projects. $3.6 million was added to Maintenance Reserve funding for 2006.

- The State Board for Community Colleges voted to increase tuition and fee rates by $4.30 per credit hour applicable to all students effective summer 2005. A tuition differential policy was approved for Northern Virginia Community College, with a $3.00 per credit hour differential taking effect with the spring 2006 session.

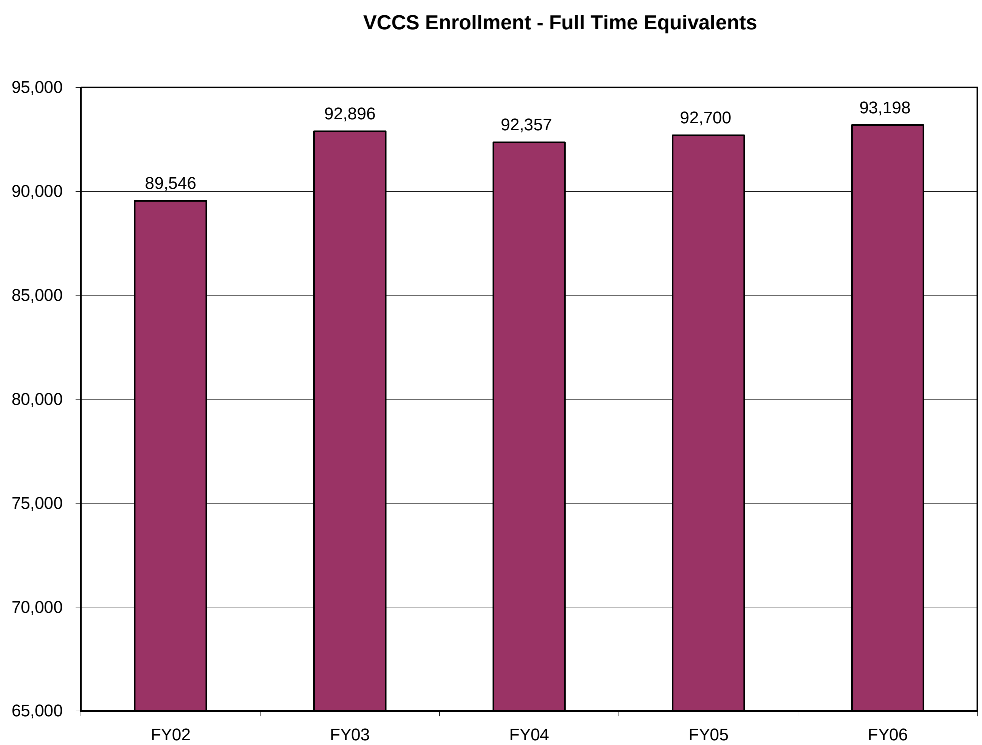
- $1.5 million in general funds were provided to support the operation and maintenance costs of new facilities coming on-line in 2006.

- $2.0 million in additional student financial assistance was appropriated from the general fund. A financial aid program specifically for students taking one or two courses at a time was increased by $300,000, from $1.2 million to $1.5 million.

- Net assets increased by $104.6 million in fiscal year 2006 principally due to a $54 million increase in cash restricted for the development of new capital projects, a $35.5 million increase in net capital assets (primarily construction in progress and equipment), and an increase in non-restricted cash and cash equivalents of $7.5 million. Additional details of these increases are presented below in the analysis of the Statement of Net Assets.

Enrollment Information

Below is a chart depicting full-time equivalent students attending the VCCS over the past five years. The VCCS mission is to provide comprehensive higher education and workforce training programs and services of superior quality that are financially and geographically accessible and that meet individual, business, and community needs of the Commonwealth. While there have been declines in out-of-state student enrollments, in-state enrollments reflecting our primary mission have continued to increase.



**One full time equivalent represents 30 credit hours of classes taken by a student over an academic year. It is calculated on an annual basis by taking the total credit hours taught divided by 30.*

Financial Statements

The three financial statements presented are the Statement of Net Assets, the Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets presents the assets and liabilities of the VCCS at the end of the fiscal year. The Statement also provides the amount of net assets and their availability for expenditure. Net assets are divided into three major categories. The first category, "Invested in capital, net of related debt," consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. The next category is "Restricted net assets," which are classified as nonexpendable or expendable. Nonexpendable restricted net assets are loan funds and permanent endowments (available for investment purposes only). Expendable restricted net assets are available for expenditure by the VCCS but must be spent for purposes determined by external entities. Unrestricted net assets are not subject to externally imposed restrictions and may be designated for specific purposes by management of the VCCS.

A summarized Statement of Net Assets* is as follows:

	2006	2005
Assets:		
Current assets	$ 119,524	$ 106,482
Capital assets, net	512,922	477,387
Other non-current assets	90,653	36,456
Total assets	$ 723,099	$ 620,325
Liabilities:		
Current liabilities	$ 68,823	$ 71,362
Non-current liabilities	64,538	63,843
Total Liabilities	$ 133,361	$ 135,205
Net Assets:		
Invested in capital assets, net of debt	$ 464,152	$ 429,370
Restricted-nonexpendable	511	438
Restricted-expendable	84,430	36,643
Unrestricted	40,645	18,669
Total Net Assets	$ 589,738	$ 485,120

*in thousands

Current assets consist of $98 million in cash and investments, accounts and notes receivable of $11 million, prepaid expenses of $5.8 million and inventories of $1.9 million. Current assets increased by $13 million primarily due to an increase in deferred revenue cash of $6 million as a result of higher tuition and fees for the Fall 2007 session along with a policy change at NVCC; whereby, continuing students are permitted to reserve fall classes through tuition prepayment. Also contributing to the increase was

$4.1 million additional accounts receivable in FY06 with $2.75 million due from the JSRCC Foundation and an increase in fiscal year 2007 expenditures prepaid by the VCCS in fiscal year 2006 of $1.2 million.

Net capital assets increased by $35.5 million from June 30, 2005, to June 30, 2006. This increase can be attributed to the capitalization of design and construction costs for numerous capital outlay projects during fiscal year 2006. The project costs capitalized during fiscal year 2006 include: Fine Arts and Performances Center at BRCC $1.8 million, Renovate Unsafe & Obsolete Buildings at DSLCC $1.6 million, Workforce Development Center at GCC $4.3 million, Parham Road Campus Phase IV at JSRCC $4.5 million, Renovate Instructional Labs at JTCC $1.1 million, Laboratory Science Building at LFCC $1.7 million, Loudoun Campus Phase IIA at NVCC $2.1 million, Renovate CN & CT Buildings at NVCC Annandale Campus $2.9 million, Parking Deck at NVCC Annandale Campus $2.8 million, Major Mechanical Upgrades at NVCC Annandale & Woodbridge Campuses $1.8 million, Building Renovations at NVCC Annandale Campus $1.4 million, Main Building Renovation at PVCC $2.7 million, Design of Portsmouth Campus at TCC $1.4 million, and Renovation at South Campus and Weber Hall at VWCC totaling $4.6 million. Current year depreciation expense for buildings, infrastructure, land improvements, equipment, and library books totaled $27.2 million.

At June 30 2006, the VCCS had future commitments for construction contracts totaling $50.9 million. Commitments were primarily comprised of $4.3 million at BRCC for Fine Arts and Performances Center, $12.9 million at JSRCC for the Parham Road Campus, $8.8 million at LFCC for the Laboratory Science Building, $5.1 million at NVCC for the TAC renovation at the Alexandria and Woodbridge Campuses, $1.7 million for PVCC Renovations to the Main Academic Building, $2.8 million at VWCC for Weber Hall Expansion, $2.0 million at SWCC, $1.5 million at DCC for Major Mechanical/Roof Replacement, along with various smaller projects among the 23 community colleges.

Other non-current assets rose by $54 million in fiscal year 2006 from fiscal year 2005. This was primarily due to an increase in restricted cash as a result of an increase in capital appropriations of $21 million and an increase in 21st Century Bond Program appropriations of $32 million.

Current liabilities consist primarily of accounts payable of $16.3 million, accrued compensation of $25.4 million, deferred revenue of $18.8 million, debt obligations of $5 million, and deposits of $3.1 million. Current liabilities decreased by $2.5 million, primarily due to a $10.9 million decrease in accrued payroll expense attributable to the Governor's mandate to move two payrolls scheduled to be paid in fiscal year 2007 into fiscal year 2006 offset by a $1.1 million increase in compensated absences, a $1.2 million increase in deferred revenue, and a $5.9 million increase in accounts payable due to the following capital projects: BRCC Fine Arts and Performing Center, JSRCC Parham Road Campus, LFCC Science Laboratory, NVCC Annandale Renovations, PVCC Main Building Renovations, SSVCC Renovation of Classrooms and Laboratories, TCC Portsmouth Campus and Science Building, and WCC HVAC Project.

Statement of Revenues, Expenses, and Changes in Net Assets

The purpose of the Statement of Revenues, Expenses, and Changes in Net Assets is to present operating and non-operating revenues received by the institution, operating and non-operating expenses incurred and any other revenues, expenses, gains, and losses. Changes in net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets.

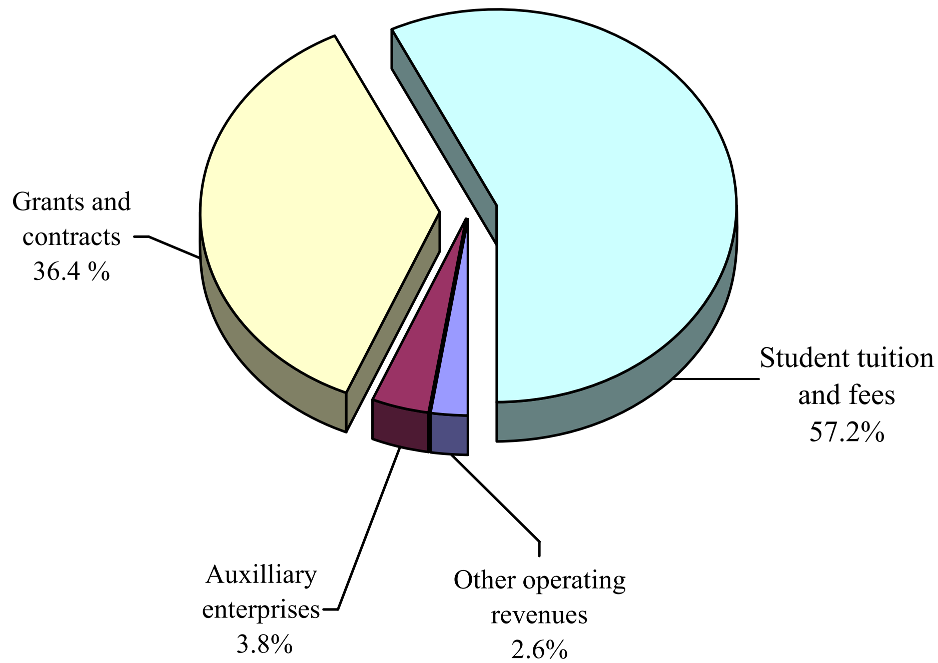
A summarized Statement of Revenues, Expenses, and Changes in Net Assets* for the year ended June 30, follows:

	2006	2005
Operating revenue	$ 337,499	$ 312,910
Operating expenses	702,370	650,697
Operating loss	(364,871)	(337,787)
Non-operating revenues(expenses):		
State appropriations	355,622	306,465
Local appropriations	1,934	2,062
Grants and gifts	8,498	6,714
Investment income	2,129	1,140
Interest expense	(1,923)	(1,820)
Other	(656)	(866)
Net non-operating revenue	365,604	313,695
Loss before other revenues, expenses, gains or losses	733	(24,092)
Capital appropriations-state	91,197	38,407
Capital appropriations-local	7,000	4,693
Capital gifts and grants	5,688	4,856
Increase in net assets	104,618	23,864
Net assets, beginning of year	485,120	461,256
Net assets, end of year	$ 589,738	$ 485,120

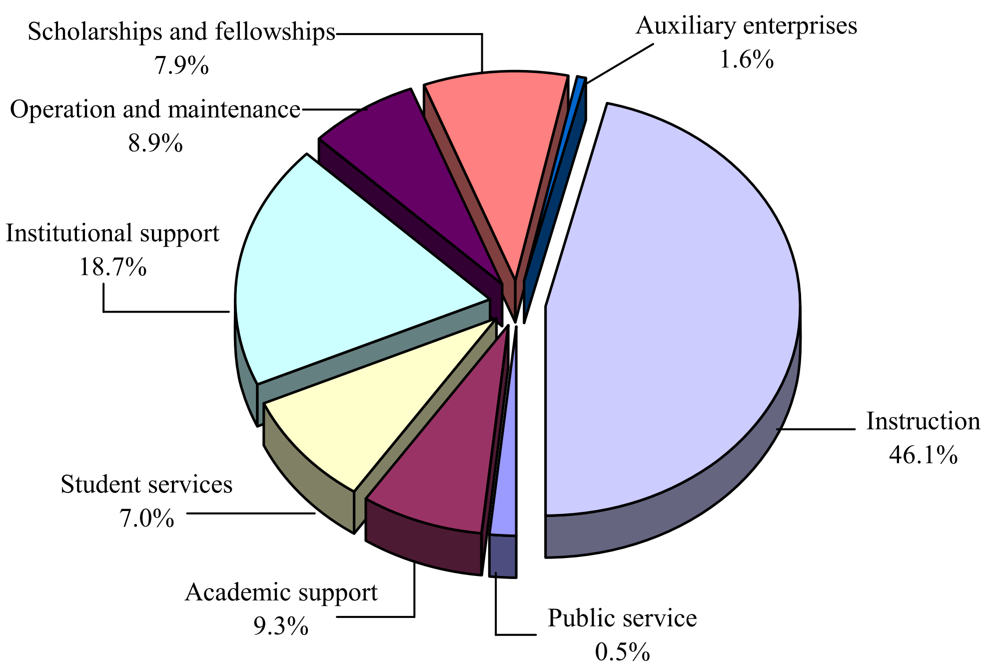
*in thousands

A graphic presentation of fiscal year 2006 operating revenues and operating expenses by source (per the Statement of Revenues, Expenditures, and Changes in Net Assets) is below:

Operating Revenues by Source



Operating Expenses



Statement of Cash Flows

The Statement of Cash Flows provides additional information about the financial results of the VCCS by reporting the major sources and uses of cash. A summary of the cash flows is as follows:

	2006	2005
Cash received from operations	$ 338,971	$ 320,137
Cash used in operations	678,350	616,139
Net cash used in operations	(339,379)	(296,002)
Net cash provided by non-capital financing activities	358,831	309,367
Net cash provided by/ (used by) capital and related financing activities	41,034	(4,933)
Net cash provided by investing activities	1,333	2,522
Net increase in cash and cash equivalents	61,819	10,954
Cash and cash equivalents, beginning of year	123,243	112,289
Cash and cash equivalents, end of year	$ 185,062	$ 123,243

Cash and cash equivalents increased by $61.8 million in fiscal year 2006 compared to an $11 million increase in fiscal year 2005. This increase is primarily in the area of appropriations available for new capital project design and construction funding allotted but not spent in fiscal year 2006. Net cash used in operating activities in fiscal year 2006 was $339 million compared to $296 million in fiscal year 2005. This can be attributed to increased spending for employee wages and fringe benefits, partially offset by an increase in tuition and fees. Net cash provided by non-capital financing increased by $49.5 million in fiscal year 2006 compared to fiscal year 2005 principally due to increased state appropriations of $48.8 million (net of reversion). Net cash provided by capital financing activities increased by $46 million. While capital state and local appropriations increased $55.1 million, capital asset purchases increased by only $7.5 million.

Economic Outlook

The VCCS receives approximately 62 percent of its operating budget through general fund appropriations. The Commonwealth of Virginia ended fiscal year 2006 with a moderate budget surplus. Most national economists expect an economic slowdown due to higher energy prices, rising interest rates, and the deceleration in the housing market. With the implementation of the *Higher Education Restructuring Act*, a commitment was made by the 2005 General Assembly to fund enrollment growth and core operations of higher education institutions. The *Higher Education Restructuring Act* endorsed the concept of restoring full responsibility and authority for establishing tuition and fees to the Boards of Visitors at all institutions. In addition, the 2005 General Assembly retained the existing language in the *Appropriations Act* that provides explicit authority to the Board of Visitors to set tuition and fee rates as well as the expectation that in-state students pay one-third of their costs and out-of-state students pay 100 percent of their costs. The State Board for Community Colleges has committed to funding the *Dateline 2009* initiative, as well as ensuring moderate tuition increases. *Dateline 2009* outlines the strategic direction for the VCCS. A significant part of this initiative relies on expansion of the VCCS funding base. Tuition represents the VCCS' share of that funding.

The State Board for Community Colleges approved a tuition increase of $4.50 per credit hour applicable to all in-state students and an increase of $21.35 per credit hour applicable to all out-of-state students effective summer term 2006. It is anticipated that this will generate approximately $14.4 million in tuition and fee revenues in fiscal year 2007. The Northern Virginia tuition differential was increased by $2.50 per credit hour, applicable to all students and effective summer term 2006. It is anticipated that this will generate approximately $1.8 million in tuition and fee revenues in fiscal year 2007.

In the fiscal year 2007 budget, the VCCS received approximately $36 million in new general fund dollars specifically earmarked to address base funding needs identified by the Joint Subcommittee of Higher Education Funding Policies.

In November 2002, voters in the Commonwealth of Virginia passed a bond resolution that will ultimately provide $159 million to the VCCS for more than 45 construction and renovation projects. The VCCS began construction on 25 of these projects in fiscal year 2004. Total fiscal year 2006 expenditures charged to general obligation bond projects were $18,675,795. Due to significant increases in the cost of construction materials and labor, it was estimated that the VCCS would not be adequately funded for projects originally approved under the general obligation bond campaign in fiscal year 2003. The original shortfall in fiscal year 2005 was estimated at $60 million. During the 2005 legislative session, the General Assembly provided the VCCS with additional $25 million general fund dollars to help offset the shortfall. The funding shortfall was updated in fiscal year 2006 and was estimated at $60 million. The General Assembly provided $59.2 million for that purpose during the 2006 Special Session.

FINANCIAL STATEMENTS

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF NET ASSETS
As of June 30, 2006

	VCCS	Component Units Foundations
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 97,855,845	$ 10,069,312
Short term investments (Note 2)	2,821,957	9,090,105
Accounts receivable, net (Note 3)	10,088,595	198,469
Pledges receivable, net (Note 3)	-	4,549,309
Interest receivable	80,380	189,460
Prepaid expenses	5,775,428	38,348
Inventories	1,908,437	12,008
Notes receivable, net (Note 3)	992,951	1,560
Total current assets	119,523,593	24,148,571
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	85,012,525	-
Cash with trustees (Note 2)	1,807,794	-
Endowment cash and cash equivalents (Note 2)	385,695	1,580,544
Endowment investments (Note 2)	-	42,396,985
Other long-term investments (Note 2)	-	42,899,616
Investments in real estate	-	1,477,321
Pledges receivable, net (Note 3)	-	6,198,348
Notes receivable, net (Note 3)	3,447,890	32,167
Non-depreciable capital assets (Note 4)	86,595,518	3,750,461
Depreciable capital assets, net (Note 4)	426,326,259	5,155,895
Total noncurrent assets	603,575,681	103,491,337
Total assets	723,099,274	127,639,908
LIABILITIES		
Current liabilities:		
Accounts and retainage payable (Note 5)	16,308,314	3,600,037
Accrued payroll expense	12,248,389	43,739
Deferred revenue	18,821,339	7,011
Long-term liabilities-current portion (Note 7)	18,186,030	2,169,413
Due to Commonwealth	156,300	-
Deposits	3,102,577	18,740
Total current liabilities	68,822,949	5,838,940
Noncurrent liabilities:		
Long-term liabilities (Note 7)	59,563,115	4,260,441
Due to federal government (Note 7)	4,975,021	-
Total noncurrent liabilities	64,538,136	4,260,441
Total liabilities	133,361,085	10,099,381

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF NET ASSETS
As of June 30, 2006

NET ASSETS

Invested in capital assets, net of related debt	464,152,499	4,806,356
Restricted for:		
Nonexpendable	510,768	39,826,361
Expendable	84,429,608	47,259,471
Unrestricted	40,645,314	25,648,339
Total net assets	$ 589,738,189	$ 117,540,527

The accompanying Notes to the Financial Statements are an integral part of this statement.

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VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006

	VCCS	Component Units Foundations
Operating revenue:		
Tuition and fees (net of scholarship allowance of $46,207,015)	$ 192,924,314	$ -
Federal grants and contracts	111,922,140	-
State and local grants	4,405,748	-
Nongovernmental grants	6,668,630	1,993,540
Sales/services of education department	246,401	-
Auxiliary enterprises (net of scholarship allowance of $3,005,734)	12,936,382	-
Gifts and contributions	-	8,435,814
Endowment income	-	2,202,200
Other operating revenues	8,395,203	1,546,594
Total operating revenue	337,498,818	14,178,148
Operating expenses:		
Instruction	323,934,210	516,163
Public service	3,846,431	46,489
Academic support	65,454,508	3,136,675
Student services	49,176,469	-
Institutional support	131,332,953	6,349,355
Operation and maintenance	62,274,922	1,282,519
Scholarships and fellowships	55,379,015	2,771,225
Auxiliary enterprises	10,921,332	-
Fundraising	-	773,962
Other expenses	49,769	25,266
Total operating expenses	702,369,609	14,901,654
Operating loss	(364,870,791)	(723,506)
Nonoperating revenues/(expenses):		
State appropriations (Note 12)	355,622,143	-
Local appropriations	1,934,050	-
Grants and gifts	8,497,641	88,110
Investment income	2,128,653	4,561,499
Interest on capital asset related debt	(1,922,601)	(161,389)
Other nonoperating expense	(656,049)	-
Net nonoperating revenue	365,603,837	4,488,220
Income before other revenues, expenses, or gains	733,046	3,764,714
Capital appropriations-state	91,196,997	-
Capital appropriations-local	6,999,573	-
Capital gifts, grants and contracts	5,688,284	5,060,810
Additions to permanent and term endowments	-	7,514,477
Increase in net assets	104,617,900	16,340,001
Net assets - beginning of year as restated (Note 1)	485,120,289	101,200,526
Net assets - end of year	$ 589,738,189	$ 117,540,527

The accompanying Notes to the Financial Statements are an integral part of this statement

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006

Cash flows from operating activities:	
Tuition and fees	$ 194,101,895
Grants and contracts	122,824,142
Payments to suppliers and others	(128,798,206)
Payments for employee wages	(384,798,616)
Payments for employee fringes	(95,159,307)
Payments for scholarships	(56,976,327)
Payments for utilities	(11,504,757)
Sales and services of education department	245,559
Auxiliary	12,573,743
Loans issued to students	(1,112,958)
Loans collected from students	1,309,542
Other	7,916,254
Net cash used by operating activities	(339,379,036)
Cash flows from non-capital financing activities:	
State appropriations	355,622,143
Local appropriations	1,982,625
Grants and gifts	1,022,705
Agency receipts	6,434,131
Agency disbursements	(6,482,204)
PLUS, Stafford and Direct Lending loan receipts	30,790,035
PLUS, Stafford and Direct Lending loan disbursements	(30,845,346)
Borrowings	654,707
Loan repayments	(708,000)
Other non-operating revenue	360,278
Net cash provided by non-capital financing activities	358,831,074
Cash flows from capital financing activities:	
Capital appropriations-state	91,196,997
Capital appropriations-local	6,999,573
Capital grants and gifts	114,543
Purchase capital assets	(50,194,191)
Proceeds from sale of capital assets	72,827
Debt interest payments	(1,922,601)
Debt principal payments	(5,233,817)
Net cash provided by capital financing activities	41,033,331
Cash flows from investing activities:	
Purchases of investments	(3,294,197)
Sale of investments	2,548,750
Investment income	2,078,551
Net cash provided by investing activities	1,333,104
Net increase in cash and cash equivalents	61,818,473
Cash and cash equivalents - beginning of year	123,243,386
Cash and cash equivalents - end of year	$ 185,061,859

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (364,870,791)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	27,176,326
Changes in assets and liabilities:	
Accounts receivable, net	(1,100,312)
Prepaid expenses and other	6,307,085
Accrued compensation and leave	(10,043,073)
Accounts payable and other	1,790,630
Deferred revenue	1,249,610
Deposits pending distribution	111,489
Net cash used in operating activities	$ (339,379,036)
Noncash transactions:	
ETF equipment	$ 9,910,284
Assets acquired through capital leases or installment purchases	$ 4,924,861
Donated fixed assets	$ 333,978
Debt principal and interest payments made by Treasury	$ 1,938,478

The accompanying Notes to the Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Community College System (VCCS) was established as an institution of higher education in 1965. The System includes the State Board for Community Colleges, a System Office located in Richmond, and twenty-three community colleges located on forty campuses throughout the Commonwealth. The State Board for Community Colleges is the governing body and is charged with the responsibility to establish, control, and administer a statewide system of publicly supported comprehensive community colleges. The System therefore functions as a statewide institution of higher learning.

The accompanying financial statements include all of the individual community colleges and the System Office under the control of the State Board for Community Colleges.

The System is a discrete component unit of the Commonwealth of Virginia and is included in the general-purpose financial statements of the Commonwealth. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

B. Community College Foundations

The community college foundations are legally separate, tax-exempt organizations formed to promote the achievements and further the aims and purposes of the colleges. The foundations accomplish their purposes through fundraising and funds management efforts that benefit the colleges and their programs. Although the colleges do not control the timing or amount of receipts from the foundations, the majority of resources or income thereon that the foundations hold and invest are restricted to the activities of the colleges by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of the colleges, the foundations are considered component units under GASB Statement 39, *Determining Whether Certain Organizations are Component Units.* Accordingly, the community college foundations are presented as discrete component units in the financial statements.

During the year ended June 30, 2006, the foundations distributed $7,727,605 to the colleges for both restricted and unrestricted purposes. Complete financial statements for the foundations can be obtained by writing the VCCS Office of Fiscal Services, 101 N. 14th St., Richmond, VA 23219.

C. Accounting Policy Changes

The VCCS adopted the following accounting and reporting changes for the year ended June 30, 2006:

GASB Statement 42 – Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries – This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries.

D. Basis of Accounting

For financial reporting purposes, the VCCS is considered a special purpose government engaged in only business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All material internal transactions have been eliminated.

Revenues and expenses of the summer academic term occur within two fiscal years, because the term extends from May through August and the fiscal year ends on June 30. Expenses and an equal amount of revenue have been reported in the current period for the portion of the summer academic term from May 16 through June 30, 2006.

The VCCS has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The VCCS has elected not to apply FASB pronouncements issued after the applicable date.

The community college foundations are private, nonprofit organizations that report under FASB standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the financial information of the foundations in the financial statements of the VCCS regarding these criteria and presentation features.

The financial statements for the community college foundations are for the year ending June 30, 2006, except for Dabney S. Lancaster, Danville, Eastern Shore, Germanna, John Tyler, Lord Fairfax, Mountain Empire, New River, Piedmont, Tidewater, Virginia Western, Wytheville (Educational and Scholarship Foundations) that are as of December 31, 2005.

E. Inventories

Inventories are stated at cost (primarily first-in, first-out method) and consist mainly of goods purchased for resale and expendable supplies.

F. Investments

Investments meeting the valuation standards outlined in GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, have been shown at fair market value. The remaining investments have been recorded at cost.

G. Capital Assets

Plant assets consisting of land, buildings, infrastructure, equipment, library books, and construction in progress are stated at appraised historical cost or actual cost where determinable. Improvements to buildings, infrastructure, and land that significantly increase the usefulness, efficiency, or life of the asset are capitalized. Routine maintenance and repairs are charged to operations when incurred. Interest expense relating to construction is capitalized. All equipment purchased under the Equipment Trust Fund program that is titled to the Virginia College Building Authority has been capitalized on these statements. Donated assets are recorded at the estimated fair value at the date of donation. The fixed asset values presented in these financial statements are extracted from the financial data maintained by the System's Financial Records System and the Fixed Asset Inventory System (FAIS). Current fund expenditures for equipment are capitalized when the unit acquisition cost is $5,000 or greater and the estimated useful life is one year or more. Occupancy permits are used to determine when to reclassify buildings from construction-in-progress. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 to 25 years for infrastructure and land improvements, 3 to 25 years for equipment, and 10 years for library books.

H. Accrued Compensated Absences

The amount of leave earned but not taken by all classified employees, administrative/professional faculty, teaching faculty, and presidents is recorded as a liability on the balance sheet. The amount reflects, as of June 30, all unused annual leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. An additional liability amount has been included for those employees with less than five years of service based on the probability they will eventually become vested. Also included in the liability is the System's share of the FICA taxes on leave balances for which employees will be compensated.

I. System Office Expenditures

The central office (the System Office) of the VCCS provides a variety of functions ranging from management control to centralized support services. Because most of these activities are management in nature and cover the operation of the entire System, they have been classified as Institutional Support.

J. Classification of Revenues and Expenses

The VCCS has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues include activities that have the characteristics of exchange transactions, such as tuition and fees, sales and services of auxiliary enterprises, most federal, state and local grants and contracts, and interest on student loans.

Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations and investment income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on disposal of capital equipment. All other expenses are classified as operating expenses.

K. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the VCCS, and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the VCCS has recorded a scholarship discount and allowance.

L. Net Assets

Net assets are classified as follows:

Invested in capital, net of related debt: Consists of capital assets, net of accumulated depreciation reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets-nonexpendable: Restricted nonexpendable net assets are endowment funds in which donors have stipulated, as a condition of the gifts that the principal is to remain inviolate in perpetuity.

Restricted net assets-expendable: Restricted expendable net assets include resources in which the VCCS is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources that may be used at the discretion of the governing board for any lawful purpose.

When an expense is incurred that can be paid from either restricted or unrestricted resources, it is the policy of the VCCS to first apply the expense towards restricted resources and then towards unrestricted resources.

Beginning net assets have been adjusted to correct prior year reporting errors as follows:

Community College Foundations:

Net assets as of June 30, 2006 as previously reported	$ 101,177,751
Audit adjustments and reclassifications	22,775
Net Assets as of July 1, 2006, restated	$ 101,200,526

2. CASH AND INVESTMENTS

Cash and Cash Equivalents

Cash equivalents maintained by the VCCS are investments with original maturities of less than three months.

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the VCCS are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds.

Deposits

Local cash deposits with banks and savings institutions not with the Treasurer of Virginia are covered by federal depository insurance or collateralized in accordance with the Virginia Security of Public Deposits Act, Section 2.2-4400 et seq., Code of Virginia. Amounts of deposits covered by the Virginia Security of Public Deposits Act totaled $20,101,022.96 at June 30, 2006.

Investments

Certain deposits and investments are held by the VCCS. Such investments are reported separately from cash and cash equivalents. Investments represent securities with original maturities of more than three months and for which management intends to hold the securities to maturity.

Investments of the member colleges of the VCCS are limited to those allowed under Chapter 45, Investments of Public Funds Act, Sections 2.2-4500 and 2.2-4501 of the Code of Virginia. Commonwealth of Virginia law limits investments in stocks, bonds, notes, and other evidences of indebtedness of the Commonwealth and those unconditionally guaranteed as to the payment of principal and interest by the Commonwealth. Investments in United States agencies all carry the explicit guarantee of the United States government. Additionally, Virginia's community colleges may participate in the Local Government Investment Pool as authorized by Chapter 46 of the Code of Virginia and managed by the Commonwealth of Virginia Treasury Board. Authorized investments in the Local Government Investment Pool are limited to those set forth for local officials in Chapter 45, Sections 2.2-4500 of the Code of Virginia.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, issued March 2003, became effective for the fiscal year ending June 30, 2005, and imposes new standards for financial reporting. The Plan implemented the necessary changes to be in compliance with this Statement. The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, foreign currency risk, and any other risks. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. As an element of credit risk, this Statement requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market mutual funds, bond mutual funds, and other pooled investment of fixed-income securities. As an element of foreign currency risk, this Statement requires certain disclosures of investments that have fair values that could be adversely affected by changes in exchange rates. Deposit and investment policies related to the risks identified in the Statement are also required to be disclosed.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. VCCS has no investments exposed to custodial credit risk for 2006.

Interest Rate Risk

Disclosure of the maturities of investments is required when the fair market value is adversely affected by changes in interest rates. Investments subject to interest rate risk are outlined in the accompanying chart.

Credit Risk

Disclosure of the credit quality rating is required for investments exposed to the risk that an issuer or other counterparty will not fulfill its obligations. Investments subject to credit rate risk are outlined in the accompanying chart.

Concentration of Credit Risk

Disclosure of any one issuer is required when it represents five percent or more of total investments. VCCS does not have such concentration of credit risk for 2006.

Foreign Currency Risk

Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. VCCS has no investments or deposits subject to Foreign Currency Risk for 2006.

Cash Equivalents	Credit Rating	Maturities	Fair Value
Local Govt. Investment Pool	AAA	0 – 3 months	$ 27,393,637
Certificates of Deposit	Not rated	0 – 3 months	7,179,579
Repurchase Agreements	Not rated	0 – 3 months	5,543,329
U.S. Govt. Treasury Bills	Not rated	0 – 3 months	2,569,065
Mutual and Money Market	Not rated	0 – 3 months	783,346
Total			$ 43,468,956

Investments	Credit Rating	Maturities	Fair Value
U.S. Government Treasury Bills	Not rated	4 – 12 months	$ 585,743
Mutual Funds	Not rated	4 – 12 months	588,966
Federal National Mortgage Association	AAA	4 – 12 months	100,000
Federal Home Loan Bank	Not Rated	4 – 12 months	99,240
J.P. Morgan Corporation Bonds	AA	1 – 5 years	155,405
Federal Home Loan Bank	AAA	1 – 5 years	199,273
Federal Home Loan Mortgage Corporation	AAA	1 – 5 years	246,320
U.S.Treasury Obligations Note	AAA	1 – 5 years	446,862
Federal Home Loan Mort. Corp.	AAA	6 – 10 years	200,094
Federal Home Loan Mort. Assoc.	AAA	6 – 10 years	99,531
U.S.Treasury Obligations Note	AAA	6 – 10 years	100,523
Total			$ 2,821,957

Community College Foundations

The Foundations had the following cash, cash equivalents, and investments as of June 30, 2006:

Cash and cash equivalents	$ 11,649,856
Investments:	
Mutual funds and money markets	$ 47,845,043
Stocks	18,414,943
U.S. government securities	11,028,842
Corporate bonds	6,273,922
UVA investment fund	3,298,654
Mortgage-backed securities	280,296
Investment in real estate	6,653,970
Certificates of deposits	871,477
Split interest agreement	599,379
Cash surrender value of life insurance	489,042
Other property investments	108,459
Total investments	$ 95,864,027

3. RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following receivables included an allowance for doubtful accounts at June 30, 2006:

Gross accounts receivable:	
Tuition and fees	$ 4,771,876
Auxiliary enterprises	910,383
Federal, state, local and nongovernmental grants, gifts, and contracts	4,014,314
Other activities	987,162
Total gross accounts receivable	10,683,735
Less: Allowance for doubtful accounts	(595,140)
Net accounts receivable	$ 10,088,595
Gross loans and notes receivable	$ 4,597,098
Less: Allowance for doubtful accounts	(156,257)
Net loans and notes receivable	$ 4,440,841

The only receivables not expected to be collected within one year are $3,447,890 in notes and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2006:

Gross accounts receivable	$ 238,633
Less: Allowance for doubtful accounts	(40,164)
Net accounts receivable	$ 198,469
Pledges receivable:	
Due in one year	$ 4,623,253
Due in 1-5 years	6,577,977
Due in more than 5 years	1,576,499
Less: Allowance for doubtful accounts	(1,004,015)
Present value discount	(1,026,057)
Net pledges receivable	$ 10,747,657
Gross loans and notes receivable	$ 33,727
Less: Allowance for doubtful accounts	-
Net loans and notes receivable	$ 33,727

4. CAPITAL ASSETS

Change in capital assets for the year ended June 30, 20006 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	$ 26,587,944	$ -	$ -	$ 26,587,944
Land improvements	10,015,558	1,093,488	(5,253)	11,103,793
Inexhaustible works of art	83,242			83,242
Construction in progress	36,473,172	49,956,183	(37,608,816)	48,820,539
Total nondepreciable capital assets	73,159,916	51,049,671	(37,614,069)	86,595,518
Depreciable capital assets:				
Buildings	450,414,942	31,160,798	(3,154,430)	478,421,310
Infrastructure	21,088,142	2,954,636	-	24,042,778
Equipment	119,679,111	10,491,399	(3,763,435)	126,407,075
Land improvements	45,534,310	3,420,694	-	48,955,004
Library books	39,842,968	2,037,091	(1,119,113)	40,760,946
Total depreciable capital assets	676,559,473	50,064,618	(8,036,978)	718,587,113
Less accumulated depreciation for:				
Buildings	(125,964,690)	(10,311,813)	2,648,164	(133,628,339)
Infrastructure	(9,381,205)	(1,043,681)	-	(10,424,886)
Equipment	(79,269,707)	(12,446,944)	3,480,439	(88,236,212)
Land improvements	(26,902,740)	(1,463,040)	-	(28,365,780)
Library books	(30,813,902)	(1,910,848)	1,119,113	(31,605,637)
Total accumulated depreciation	(272,332,244)	(27,176,326)	7,247,716	(292,260,854)
Depreciable capital assets, net	404,227,229	22,888,292	(789,262)	426,326,259
Total capital assets, net	$ 477,387,145	$ 73,937,963	$ (38,403,331)	$ 512,921,777

Community College Foundations

The foundations had the following capital assets as of June 30, 2006:

Nondepreciable capital assets:	
Land	$ 1,940,641
Works of art	235,197
Construction in Process	1,574,623
Total nondepreciable capital assets	3,750,461
Depreciable capital assets:	
Buildings	5,398,662
Equipment	1,015,150
Infrastructure	2,400
Site improvement	-
Total depreciable capital assets	6,416,212
Less: Accumulated depreciation	(1,260,317)
Depreciable capital assets, net	5,155,895
Total capital assets, net	$ 8,906,356

5. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2006:

Vendor payables	$ 14,065,560
Retainage payable	2,236,960
Taxes payable	5,794
Total	$ 16,308,314

6. COMMITMENTS

At June 30, 2006, the VCCS had future commitments for construction contracts totaling approximately $50,952,683. The System held $2,236,960 as retainage payable on construction and architectural/engineering contracts for work performed. The retainage payable will be remitted to the various contractors upon satisfactory completion of the construction projects.

7. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Bonds payable	$ 1,459,680	$ -	$ 178,778	$ 1,280,902	$ 185,934
Other capital leases	22,589,990	1,318,045	1,310,242	22,597,793	1,562,925
Notes payable:					
Installment purchases	5,574,495	5,056,542	2,794,797	7,836,240	1,614,444
Pooled bonds	19,465,000		950,000	18,515,000	975,000
Other notes payable	708,000	654,707	708,000	654,707	654,707
Total bonds, notes and capital leases	49,797,165	7,029,294	5,941,817	50,884,642	4,993,010
Other liabilities:					
Compensated absences	26,045,545	15,178,040	14,359,082	26,864,503	13,193,020
Deferred revenue	5,593	-	5,593	-	-
Federal loan program contributions	4,976,118	-	1,097	4,975,021	-
Total other liabilities	31,027,256	15,178,040	14,365,772	31,839,524	13,193,020
Total long-term liabilities	$ 80,824,421	$22,207,334	$20,307,589	$82,724,166	$18,186,030

8. BONDS PAYABLE

Long-term debt in the form of bonds payable of the System as of June 30, 2006, consists of the following:

Higher Education Refunding Bonds, Series 1999, issued $1,868,800 to advance refund a portion of the Higher Education Bonds, Series 1992A. The balance is payable in annual installments ranging from approximately $185,000 to $240,000 with an average coupon rate of 4.18 percent payable semiannually. The final installment of $239,167 is due June 1, 2012. The outstanding balance at June 30, 2006 is $1,280,902.

Aggregate annual maturities of bonds payable for fiscal years after 2006:

Year Ending June 30	Principal	Interest	Total
2007	$ 185,933	$ 58,048	$ 243,981
2008	200,833	48,751	249,584
2009	207,909	40,215	248,124
2010	219,967	31,119	251,086
2011	227,093	21,221	248,314
2012	239,167	11,002	250,169
Total debt service Requirements	$ 1,280,902	$ 210,356	$1,491,258

9. NOTES PAYABLE

Notes payable represents an agreement with the Virginia College Building Authority (VCBA) to finance the following projects:

Parking and access road improvements for John Tyler Community College - The balance is to be repaid in ten annual installments ranging from $70,000 to $130,000 with an average coupon rate of 4.03 percent payable semiannually. The final installment of $130,000 is due September 1, 2013. The outstanding balance at June 30, 2006 is $880,000.

Parking improvements for the Midlothian campus of John Tyler Community College - The balance is to be repaid in ten annual installments ranging from $35,000 to $45,000 with an average interest rate of 3.52 percent payable semiannually. The final installment of $45,000 is due September 1, 2008. The outstanding balance at June 30, 2006 is $135,000.

Parking garage for the Medical Education campus of Northern Virginia Community College - The balance is to be repaid in twenty annual installments ranging from $265,000 to $555,000 with an average coupon rate of 4.27 percent payable semiannually. The final installment of $555,000 is due September 1, 2021. The outstanding balance at June 30, 2006 is $6,470,000.

Parking deck for the Annandale Campus of Northern Virginia Community College - The balance is to be repaid in twenty annual installments ranging from $310,000 to $400,000 with an average coupon rate of 4.35 percent payable semiannually. The final installment of $400,000 is due September 1, 2023. The outstanding balance at June 30, 2006 is $7,200,000.

Parking garage for J. Sargeant Reynolds Community College - The balance is to be repaid in twenty annual installments ranging from $110,000 to $330,000 with an average coupon rate of 4.95 percent payable semiannually. The final installment of $330,000 is due September 1, 2022. The outstanding balance at June 30, 2006 is $3,830,000.

Other notes payable of $654,707 represents advances received from the Commonwealth of Virginia in anticipation of federal grant funding.

Scheduled maturities of notes payable are as follows:

Year Ending June 30,	Principal	Interest	Total Payments
2007	$ 975,000	$ 850,435	$ 1,825,435
2008	1,000,000	810,157	1,810,157
2009	1,020,000	768,429	1,788,429
2010	1,000,000	725,788	1,725,788
2011	1,030,000	676,700	1,706,700
2012-2016	5,340,000	2,612,347	7,952,347
2017-2021	5,755,000	1,299,438	7,054,438
2022-2025	2,395,000	141,931	2,536,931
Totals	$ 18,515,000	$ 7,885,225	$ 26,400,225

10. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The System is committed under various capital lease, operating lease, and installment purchase agreements. The cost of assets capitalized under capital lease and installment purchase agreements total $33,339,667 and $7,152,464, respectively. Rent expense under operating lease agreements amounted to $8,727,587 for the year. A summary of future obligations under lease agreements as of June 30, 2006, follows:

Year Ending June 30	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2007	$ 2,632,595	$ 1,814,213	$ 5,417,994
2008	2,595,733	1,660,327	4,516,403
2009	2,588,914	1,327,108	3,928,109
2010	2,588,289	562,101	3,497,151
2011	3,090,783	415,469	2,820,102
2012-2016	11,925,850	2,064,000	9,790,628
2017-2021	4,803,240	1,889,819	1,380,000
Total obligation and gross minimum lease payments	30,225,404	9,733,037	31,350,387
Less: Interest	(7,627,611)	(1,896,797)	-
Present value of minimum lease payments	$ 22,597,793	$ 7,836,240	$ 31,350,387

11. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2006 were as follows:

	Natural Classification					
Functional Classification	Salaries & Benefits	Utilities	Scholarships	Depreciation	Supplies, Services and Other	Total
Instruction	$ 267,543,614	$ 100,805	$ 2,000,260	$14,789,877	$ 39,499,654	$ 323,934,210
Public service	2,255,571	56	743	47,622	1,542,439	3,846,431
Academic support	50,336,281	26,166	41,320	3,209,438	11,841,303	65,454,508
Student services	43,437,951	66	105,306	333,200	5,299,946	49,176,469
Institutional support	87,359,691	90,025	3,047	7,489,698	36,390,492	131,332,953
Operation and maintenance of plant	17,333,174	11,254,344	17,982	1,298,677	32,370,745	62,274,922
Scholarships and fellowships	20,000	-	55,105,008	-	254,007	55,379,015
Auxiliary enterprises	1,631,867	96,226	7,265	7,814	9,178,160	10,921,332
Total expenses	$ 469,918,149	$ 11,567,688	$ 57,280,931	$27,176,326	$136,376,746	$ 702,319,840

12. STATE APPROPRIATIONS

All Commonwealth unrestricted revenues must be appropriated by the Legislature and are approved by the Legislature and are provided on an annual basis. Unspent balances of these appropriations at the close of the fiscal year revert to the Commonwealth's General Fund. These reverted funds are eligible for re-appropriation in fiscal year 2006-07 provided that the VCCS meets the Management Standards established by the Secretary of Education and the Secretary of Finance and approved by the Governor.

During the year ended June 30, 2006, the Virginia Community College System received the following supplemental appropriations in accordance with the Appropriation Act of 2006, Chapter 951, Acts of Assembly.

Appropriated-Chapter 951- Approved May 4, 2005	$ 327,718,818
Additions:	
Transfers from central appropriations:	
Continue 2005 state employee salary increase	1,806,891
Fiscal year 2006 state employee salary increase	1,008,113
Classified salary increase	447,739
Employee health care insurance premium increase	4,214,333
Additional rent – Monroe Building	9,226
VSDP rate increase	642,828

COVANET charges	1,393
Rent increase	11,622
Less:	
Retirement rate decrease	(256,745)
Group life insurance premium reduction	(893,016)
Retiree health credit rate reduction	(187,995)
Other:	
Transfer from SCHEV – VIVA	28,418
Carryover (re-appropriated) fiscal year 2005 year-end balance	14,219,228
Virginia Works funding signed by Governor 8/5/05	35,000
VIMSIM	200,000
Path to industry certification	368,000
DOE Literacy program	125,000
25th Payroll of fiscal year 2006	10,819,846
Transfer from SCHEV – Military tuition waiver	786,215
Retirement rate decrease (NGF)	(226,981)
Equipment Trust Fund lease payment	(633,657)
Group life insurance premium rate reduction	(777,164)
Transfer capital fee	(258,960)
Retiree health credit reduction	(165,147)
Philpott Manufacturing	(816,370)
Reversion	(19,488,620)
Adjusted unrestricted appropriations	$ 338,738,015

Other restricted appropriations were $16,884,128 for a total of $355,622,143.

13. EQUIPMENT TRUST FUND

The System participates in the Higher Education Equipment Trust Fund of the Virginia College Building Authority (VCBA). The Higher Education Equipment Trust Fund provides funds to public colleges and universities for equipment acquisition. In prior years, funds were provided in the form of a lease. During the year ended June 30, 2006, the VCBA financed the ETF program with state funds, which will not require repayment.

14. DONOR-RESTRICTED ENDOWMENTS

VCCS has two donor-restricted endowments. The net appreciation on investments of donor-restricted endowments that is available for expenditure by the governing board for the year ended June 30, 2006 is $584. These amounts are reported as restricted expendable net assets. Total-return policy is followed for authorizing and spending investment income.

15. CONTINGENCIES

Grants

The VCCS receives assistance from non-state grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements. Substantially all grants are subject to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of the VCCS. As of June 30, 2006, the VCCS estimates that no material liabilities will result from such audits.

16. PENSION PLAN

All qualified salaried employees of the VCCS must participate in one of two retirement benefit plans - the Virginia Retirement System (VRS) or the Optional Retirement Plan (ORP). Classified employees are eligible to participate in the VRS only, while faculty rank employees are eligible to participate in either the VRS or the ORP.

The VRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions. This is a fixed benefit plan, with benefits vesting after five years of service. Current benefit provisions are based on a formula using years of service, salary, and age. The VRS does not measure assets and pension benefit obligations separately for individual State institutions. Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the VCCS, has overall responsibility for contributions to this plan.

Participants in the ORP may select from one of five plan administrators for the receipt and investment of contributions. This is a fixed-contribution plan where the retirement benefits received are based on the employer's (10.4%) contributions, plus interest and dividends.

Individual contracts issued under the ORP plan provide for full and immediate vesting of the VCCS contributions. Total pension costs under this plan were $4,733,323 and $4,229,664 for years ended June 30, 2006 and 2005, respectively. Contributions to the ORP plan were calculated using the base salary amount of $45,512,723 and $40,669,846 for fiscal years 2006 and 2005. The VCCS total payroll for fiscal years 2006 and 2005 was $382,220,324 and $338,411,991 respectively.

17. RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The System participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plan are administered by the Department of Human Resource Management, and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bonds, automobile, and air and watercraft plans. The System pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

A Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of Treasury, Division of Risk Management, covers the employees of the VCCS. The Faithful Performance Duty Bond provides coverage with liability limits of $500,000 for each occurrence.

18. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program which provides post-employment life insurance to eligible retired and terminated employees. The Commonwealth also provides health care credit against the monthly insurance premiums of its retirees who have at least 15 years of state service and participate in the state's health plan. Information related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

19. COMPONENT UNIT FINANCIAL INFORMATION

Below is a summary of the foundations.

VCCS has four major component units—Northern Virginia Community College Educational Foundation, Lord Fairfax Community College Educational Foundation, Patrick Henry Community College Foundation, and Southwest Virginia Community College Educational Foundation. Additionally, the System has twenty-three non-major component units—Blue Ridge Community College Educational Foundation, Central Virginia Community College Educational Foundation, Dabney S. Lancaster Community College Educational Foundation, Danville Community College Educational Foundation, Eastern Shore Community College Educational Foundation, Germanna Community College Educational Foundation, J. Sargeant Reynolds Community College Educational Foundation, J. Sargeant Reynolds Community College Real Estate Foundation, John Tyler Community College Foundation, Mountain Empire Community College Educational Foundation, New River Community College Educational Foundation, Paul D. Camp Community College Educational Foundation, Piedmont Community College Educational Foundation, Rappahannock Community College Educational Foundation, Southside Virginia Community College Educational Foundation, Thomas Nelson Community College Educational Foundation, Tidewater Community College Educational Foundation, Tidewater Community College Real Estate Foundation, Virginia Highlands Community College Educational Foundation, Virginia Western Community College Educational Foundation, Wytheville Community College Educational Foundation, Wytheville Community College Scholarship Foundation, and Community Colleges of Virginia Educational Foundation. These organizations are separately incorporated entities and other auditors examine the related financial statements.

VIRGINIA COMMUNITY COLLEGE SYSTEM FOUNDATIONS
STATEMENT OF NET ASSETS
As of June 30, 2006

	Northern Virginia Community College Educational Foundation	Lord Fairfax Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Southwest Virginia Community College Educational Foundation
ASSETS				
Total current assets	$ 3,329,847	$ 1,602,421	$ 285,972	$ 3,918,594
Noncurrent assets:				
Other noncurrent assets	11,042,770	6,487,125	9,894,578	8,503,417
Capital assets, net	-	179,650	-	721,427
Total noncurrent sssets	11,042,770	6,666,775	9,894,578	9,224,844
Total assets	$ 14,372,617	$ 8,269,196	$ 10,180,550	$ 13,143,438
LIABILITIES				
Total current liabilities	$ 2,319,798	$ 19,637	$ 3,195	$ 8,861
Noncurrent liabilities:				
Long-term liabilities	-	-	-	-
Other noncurrent liabilities	-	-	-	-
Total noncurrent liabilities	-	-	-	-
Total liabilities	$ 2,319,798	$ 19,637	$ 3,195	$ 8,861
NET ASSETS				
Invested in capital assets, net of related debt	$ -	$ 179,650	$ -	$ 721,427
Restricted for:				
Nonexpendable	2,436,462	2,490,265	6,165,602	-
Expendable	3,038,762	5,127,388	2,363,113	8,219,916
Unrestricted	6,577,595	452,256	1,648,640	4,193,234
Total net assets	$ 12,052,819	$ 8,249,559	$ 10,177,355	$ 13,134,577

Combined Non-Major Component Units	Total Component Units
$ 15,011,737	$ 24,148,571
58,657,091	94,584,981
8,005,279	8,906,356
66,662,370	103,491,337
$ 81,674,107	$ 127,639,908
$ 3,487,449	$ 5,838,940
4,260,441	4,260,441
-	-
4,260,441	4,260,441
$ 7,747,890	$ 10,099,381
$ 3,905,279	$ 4,806,356
28,734,032	39,826,361
28,510,292	47,259,471
12,776,614	25,648,339
$ 73,926,217	$ 117,540,527

VIRGINIA COMMUNITY COLLEGE SYSTEM FOUNDATIONS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Northern Virginia Community College Educational Foundation	Lord Fairfax Community College Educational Foundation	Patrick Henry Community College Educational Foundation
Total operating revenue	$ 471,763	$ 223,084	$ 1,007,954
Total operating expenses	1,777,026	181,264	947,852
Operating income/(loss)	(1,305,263)	41,820	60,102
Nonoperating revenues/(expenses):			
Grants and gifts	-	-	-
Investment income	338,034	53,550	527,937
Interest on capital asset related debt	-	-	-
Other nonoperating revenue/(expenses)	-	-	-
Net nonoperating revenue	338,034	53,550	527,937
Income before other revenues, expenses gains (losses)	(967,229)	95,370	588,039
Capital gifts, grants and contracts	-	39,418	-
Additions to permanent and term endowments	1,138,500	148,037	438,012
Increase (decrease) in net assets	171,271	282,825	1,026,051
Net assets - beginning of year	11,881,548	7,966,734	9,151,304
Net assets - end of year	$ 12,052,819	$ 8,249,559	$ 10,177,355

Southwest Virginia Community College Educational Foundation	Combined Non-Major Component Units	Total Component Units
$ 1,650,432	$ 10,824,915	$ 14,178,148
1,036,731	10,958,781	14,901,654
613,701	(133,866)	(723,506)
-	88,110	88,110
756,528	2,885,450	4,561,499
-	(161,389)	(161,389)
-	-	-
756,528	2,812,171	4,488,220
1,370,229	2,678,305	3,764,714
-	5,021,392	5,060,810
-	5,789,928	7,514,477
1,370,229	13,489,625	16,340,001
11,764,349	60,436,591	101,200,526
$ 13,134,578	$ 73,926,216	$ 117,540,527

Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

July 23, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

The State Board for Community Colleges

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of **Virginia Community College System**, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the System, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the System is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the System that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United State of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Virginia Community College System and of its aggregate discretely presented component units as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages seven through 14 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Virginia Community College System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Virginia Community College System's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section titled Internal Control and Compliance Findings and Recommendations.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. Instances of noncompliance and other matters are described in the section titled Internal Control and Compliance Findings and Recommendations.

Status of Prior Findings

Thomas Nelson and Central Virginia Community Colleges have not taken adequate corrective action with respect to the previously reported findings "Strengthen Internal Controls over the Small Purchase Charge Card Program" and "Continue to Improve Capital Asset Management and Reporting" respectively. Accordingly, we included these findings in the section entitled "Internal Control and Compliance Findings and Recommendations" under the findings entitled "Retain Required Documentation for Small Purchase Charge Cards" and "Ensure Capital Asset Inventory Records are Accurate." The System and its Colleges have taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on July 23, 2007. Management's response has been included at the end of this report.

AUDITOR OF PUBLIC ACCOUNTS

DBC/whb

VIRGINIA COMMUNITY COLLEGE SYSTEM
James Monroe Building • 101 North Fourteenth Street • Richmond, Virginia 23219

July 26, 2007

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218-1295

Dear Mr. Kucharski:

We are providing this letter in response to your report on the audit of the financial records of the Virginia Community College System for the fiscal year ended June 30, 2006.

We confirm that we have received the findings and recommendations and have prepared the attached response and corrective action plan.

If you have any questions, please contact Dave Mair, VCCS Controller, at (804) 819-4929.

Sincerely,

Glenn DuBois
VCCS Chancellor

GD/dsm

Enclosure

cc: Ms. Karen Petersen
Mr. John Brilliant
Mr. Dave Mair

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Risk Management and Contingency Plans

While the System Office is currently rewriting its standards to align with the Commonwealth's new security standard, SEC 501, the System Office's standard lacks certain details that they need to incorporate into its new standards. During this process, the System Office needs to properly identify its critical business functions in its Business Impact Analysis, as they are the foundation on which to build a security program. In addition, to strengthen risk mitigation and ensure the continuation of essential operations, the System Office needs to expand their Risk Assessment, Business Continuity Plan, and Incident Response Plan to include the following details.

Risk Assessment
Include environmental and natural threats and calculate occurrence probabilities.

Business Impact Analysis
Properly identify critical business functions needed to fulfill the System Office's mission, the systems that support them, and maximum allowable downtimes.

Business Continuity Plan/Disaster Recovery Plan
Devise interim manual processes for essential business functions and prioritize the restoration of services.

Incident Response Plan
Develop a plan to respond to suspected or known breaches to security safeguards and include mitigation and notification procedures,

In order to improve the System Office's risk management and contingency plans, management will need to address these recommendations, dedicate the necessary resources, and ensure that appropriate components are included in the security awareness training program. Management should take into account the detailed specifications included in the Commonwealth's new security standard, SEC501.

***Virginia Community College System Office Response*:**

The System Office concurs with this finding and work is in progress to develop the appropriate changes to the System Office IT Security Program and the related Information Security Plan.

Implementation Date for Corrective Action: September 28, 2007

Responsible Manager: Director of Technology Services

Develop, Approve, and Implement Written Standards and Procedures for the Firewall

The System Office makes unauthorized changes to its firewall and allows unfiltered traffic through its firewall after users connect remotely to the Virginia Community College System network due to inadequate access rules in the firewall configuration file. These rules violate the principle of least privilege and threaten the security of the system and the data it holds.

The System Office does not have adequate formal written standards and procedures that require periodic review of the firewall, assignment of responsibility, and management approval for changes. In addition, we found inconsistencies between the documented firewall change procedures and the actual practices performed within the System Office.

The System Office should develop, approve, and implement formal written standards and procedures for the firewall; update the firewall change policy to include management approval; reconcile its policies with its procedures; and include this information in its security awareness training program.

***Virginia Community College System Office Response*:**

At the time of the audit, the firewall configuration did include a rule to accommodate the System Office remote user access to IT services via the internal VPN service. That specific rule is no longer associated with the current firewall configuration. The ITS Office has also developed and implemented a formal firewall standard and supporting change management procedure to support the operation and administration of the firewall. All points in the audit finding were addressed during June 2007 and communicated to all ITS staff members with responsibility for the firewall.

Comply with the Commonwealth's Security Standard, SEC2001, and VCCS standards

Applicable to: Danville Community College
Eastern Shore Community College
Rappahannock Community College
Wytheville Community College

We found that Danville Community College, Eastern Shore Community College, Rappahannock Community College, and Wytheville Community College do not comply with the Commonwealth's security standard, SEC2001, for information technologies. In addition, the Colleges do not follow the standards issued by the System Office. This places the Colleges' systems and the information they contain at risk. The Colleges cannot use the System Office's published standards as College policy. The standards set requirements that each college must follow when creating their Information Security Plan. We recommend that the Colleges improve the following information system security areas in order to comply with the Commonwealth and System Office's security standards and to mitigate their risk.

- Security awareness training program
- Risk Assessment
- Business Impact Analysis
- Business Continuity Plan
- Disaster Recovery Plan
- Policies, procedures, and other required documentation

In order to improve the Colleges' information security plans, the Colleges will need to address the recommendations above and dedicate the necessary resources to develop, document, and implement such plans.

Danville Community College Response:

Danville Community College is currently working on compliance with the newer SEC 501 standard. With regards to the newer standard and the areas shown above, the College is doing the following –

- *Security awareness training program*

- *The College proposes to purchase and implement the MOAT training system for security awareness.*
- *The system will be in place by October 31, 2007.*
- *This will be implemented by the College's IT Security Analyst.*

- *Risk Assessment*
- *Business Impact Analysis*
- *Business Continuity Plan*
- *Disaster Recovery Plan*
  - *The above four areas have already been addressed by the College in the submission for SEC 501 compliance, which was complete on June 15, 2007. This has been submitted to the VCCS.*
  - *Action is complete*
  - *Implemented by the College's IT Security Analyst.*

- *Policies, procedures, and other required documentation*
  - *This section will be addressed with the second submission for SEC 501 compliance. This will be complete by December 31, 2007.*
  - *This will be implemented by the College's IT Security Analyst.*

<u>Eastern Shore Community College Response:</u>

Eastern Shore Community College is currently working on compliance with the newer SEC 501 standard. With regards to the newer standard and the areas shown above, the College is doing the following –

- *Security awareness training program*
  - *The College is evaluating products and methods to improve the current program to meet the updated requirements.*
  - *Implementation date December 31, 2007*
  - *This will be implemented by the Coordinator of Information and Technology Systems*

- *Risk Assessment*
- *Business Impact Analysis*
- *Business Continuity Plan*
- *Disaster Recovery Plan*
  - *The above four areas have already been addressed by the College in the submission for SEC 501 compliance. This has been submitted to the VCCS.*
  - *Action is complete*
  - *Implemented by the Coordinator of Information and Technology Systems*

- *Policies, procedures, and other required documentation*
  - *This section will be addressed with the second submission for SEC 501 compliance. This will be complete by December 31, 2007.*
  - *This will be implemented by the Coordinator of Information and Technology Systems*

Rappahannock Community College Response:

Rappahannock Community College is currently working on compliance with the newer SEC 501 standard. With regards to the newer standard, the College is doing the following –

- *Security awareness training program*
  - *The College has purchased MOAT, an online security-training program. Final setup and training is in process. Full implementation will be completed by September 28, 2007 and will aid the college in complying with the standard*
  - *This will be implemented by the Dean of Technology and Distance Learning.*

- *Risk Assessment has been completed and approved by President*
- *Business Impact Analysis has been completed and approved by President*
- *Business Continuity Plan - COOP Plan has been completed and approved by VP Finance*
- *Disaster Recovery Plan has been completed and approved by President*

- *Policies, procedures, and other required documentation*
  - *According to the APA, many of the security policies and procedures within the college's information security plan address COV SEC2001 Standards; however, they were missing some required elements. Those elements were Access Determination and Control, and Logical Access Controls - Account Management.*
  - *The Information Security Officer is currently in the process of evaluating the existing security policies and procedures, and creating or modifying existing ones so that the college will be compliant with the newer and more stringent 501 Standards. The college will have fully compliant policies and procedures by September 28, 2007.*

Wytheville Community College Response:

Wytheville Community College is currently working on compliance with the newer SEC 501 standard. With regards to the newer standard and the areas shown above, the College is doing the following –

- *Security awareness training program*

  It was indicated on further discussion that the awareness training program in use at the college was adequate for general audience but as per the standards, a more focused training would be required for specific users like data managers, system owners and so on.

  - *The College proposes to purchase and implement the MOAT training system for a more focused security awareness training program.*
  - *The system will be in place by October 31, 2007.*
  - *This will be implemented by the Director of Academic & Administrative Computing, and funds have already been allocated in the 2007-2008 Technology Plan submitted to the VCCS on June 20, 2007.*

- *Risk Assessment*
  - *This has already been addressed by the College in the submission for SEC 501 compliance, which was complete on July 1, 2007.*
  - *This has been submitted to the VCCS and implemented by the Director of Academic & Administrative Computing.*
- *Business Impact Analysis*
  - *This is being addressed in detail by the College in the submission for SEC 501 compliance and is being implemented by the Director of Academic & Administrative Computing.*
- *Business Continuity Plan*
- *Disaster Recovery Plan*
  - *The above two areas have already been addressed by the College in the submission for SEC 501 compliance and implemented by the Director of Academic & Administrative Computing.*
- *Policies, procedures, and other required documentation*
  - *Some policies and procedures were available but were not submitted in the initial documentation required by the auditors. This section will be addressed with the second submission for SEC 501 compliance. This will be complete by December 31, 2007. This will be implemented by the Director of Academic & Administrative Computing.*

Improve Accounts Receivables Reporting

Applicable to: Thomas Nelson Community College

Thomas Nelson Community College does not have procedures in place to properly report accounts receivables. The college has used the same allowance for doubtful accounts for the past two years without verifying the reasonableness of the allowance compared to historical write off data. The college has also failed to write off accounts, which are aged and determined uncollectible.

Understating accounts receivables could cause a possible material misstatement to the financial statements, which under the Statement on Auditing Standards (SAS) 112, effective in fiscal year 2007, is a material weakness in internal controls. However, based on our estimates, the current understatement is immaterial.

We recommend that Thomas Nelson establish reporting procedures to track student receivables in order to correctly include them on the Virginia Community College System's consolidated financial statements. The college should develop a calculation for a reasonable allowance for doubtful accounts, using either historical data or the aging of their total receivables. Thomas Nelson's policies should also include procedures on researching receivable accounts to determine their validity and writing them off when determined uncollectible.

Thomas Nelson Community College Response:

All accounts receivable are now included in the Quarterly Accounts Receivable Report that is submitted to the Department of Accounts (DOA). The College has initiated due diligence collection efforts for all outstanding accounts, including write-offs, and "Negative Service Indicators" will be placed on all past due student accounts. The College has developed Comprehensive policies and procedures that comply with the CAPP

Manual and have made these available to all fiscal staff. An aging history is being formulated to ensure a proper "aging" of accounts receivable. This aging history will be used to determine the allowance for doubtful accounts at fiscal year-end 2007.

Status: Completed

Responsible Party: Charles Nurnberger, Vice President for Finance and Administration

Retain Required Documentation for Small Purchase Charge Cards

Applicable to: Thomas Nelson Community College

Thomas Nelson Community College did not retain charge card purchases documentation for two of the four individuals tested having Small Purchase Charge Cards. For one cardholder, Thomas Nelson could not find purchase documentation for the months of July 2005, August 2005, and March 2006. For the other cardholder, Thomas Nelson could not find purchase documentation for the months of July 2005 and August 2005.

Without purchase documentation, it is not possible to determine if the college is following state guidelines on the use of these charge cards. The Department of Accounts provides policies and procedures for the Small Purchase Charge Card Program, which includes individual transaction limits, monthly spending limits per individual, reconciliation procedures, and retention policies. Without the purchase documentation for the individuals requested, we could not determine if the college is complying with any of these policies and procedures.

We recommend that the college provide training on the use of the Small Purchase Charge Cards to ensure that cardholders are aware of all college and state policies and procedures. The college must also retain the monthly purchase documentation, to including purchasing logs.

Thomas Nelson Community College Response:

The College provides annual training on the use of the Small Purchase Charge Card program. Employees who do not follow state policies and procedures will have their cards suspended or revoked.

The College has made several site visits to other VCCS Community Colleges to survey different document filing systems. New filing procedures have been developed and implemented which will ensure that documents are maintain and located.

Status: Completed

Responsible Party: Charles Nurnberger, Vice President for Finance and Administration

Ensure Capital Asset Inventory Records are Accurate

Applicable to: Central Virginia Community College

Central Virginia Community College did not remove four information technology assets from its capital asset inventory in the Fixed Asset Information System (FAIS) after transferring the assets to the Central Virginia Training Center in fiscal year 2004. When Central Virginia conducted an inventory in March 2006, they did not include all asset locations and again missed identifying disposed assets.

Central Virginia did not realize the mistake until the auditors could not locate the assets during the audit. Central Virginia had a similar finding for properly recording disposed assets in the prior audit.

The Virginia Community College System uses FAIS to derive the equipment totals for the annual financial statements and for tracking purposes. Therefore, policies and procedures require surplus assets to be removed from the fixed asset system and appropriate documentation completed and retained for audit purposes. Since the college had not removed the assets from FAIS, the college immaterially overstated the equipment value and the accumulated depreciation in the footnotes accompanying the annual financial statements. Central Virginia should improve its procedures over identifying and recording surplus assets, preparing and retaining disposal documentation, and ensuring that all locations are included in inventory counts.

Central Virginia Community College Response:

The practice mentioned regarding the disposal of surplus property was discontinued at the end of fiscal year 2004. CVCC strives to comply with the CAPP Manual and VCCS policies to prevent any misuse of assets or a misstatement in the annual financial statements. Since this was discussed with the auditor, FAIS has been corrected and the surplus file documented. Effective May 31, 2007, the Purchasing Manager implemented the corrective action.

Formalize Policies and Procedures and Improve Internal Controls over Student Financial Aid:

Applicable to: Central Virginia Community College

During fiscal year 2006, we found many issues with processing and administrating of student financial aid because of inadequate internal controls and non-compliance with student financial aid regulations, since there are no formal policies and procedures at Central Virginia Community College. We found the following issues.

- The Student Financial Aid Office used the last date of classes while the Community College System recommended using the last day of exams for determining the 60 percent enrollment threshold and the Title IV calculations. There is a seven-day difference in these two dates. Although 34 CFR Section 668.3 does allow an institution to use either the last day of classes or the last day of exams, the Student Financial Aid Department should consider using the last day of exams in determining the 60 percent enrollment threshold and performing Title IV calculations. This allows for consistency within the Community College System and is less restrictive on the student.

- The Admissions/Records Office does not have formal policies and procedures for reporting enrollment and payment changes to the National Student Loan Clearinghouse. See finding entitled "Report Payment Data to NSLDS Timely" for details.

- Central Virginia incorrectly hard-coded the 60 percent enrollment date for spring 2006 into PeopleSoft thus impacting Title IV calculations. The date was off by one day resulting in each student's aid being incorrect by two to ten dollars.

- The Financial Aid Officer did not retain documentation to support amounts reported on the fiscal year 2005 Fiscal Operations Report and Application to Participate (FISAP). Central Virginia produced a report from PeopleSoft that supported the amounts in total reported on the FISAP, but could not support the distribution of the funds between programs and by type of student reported on the FISAP.

The Financial Aid Officer should perform a thorough analysis of all critical Student Financial Aid functions and alter controls as needed to ensure the accurate and timely processing and reporting of student financial aid. The Financial Aid Officer should formally document policies and procedures over all student financial aid processes.

The Financial Aid Officer should coordinate with the Admissions/Records Office to ensure that dates critical to student financial aid operations are accurate when hard-coded into the system. The Financial Aid Officer should retain supporting documentation related to figures reported on the annual FISAP report. By retaining all necessary documentation, the Financial Aid Office provides for an adequate audit trail.

At this time, the number of Title IV calculations is minimal. Therefore, once Title IV calculations are completed, the Financial Aid Officer should perform a thorough review of calculations for accuracy and process reports and refunds quickly after that review.

The management of Central Virginia should continuously monitor business operations and internal controls in the Student Financial Aid Department to ensure compliance with Federal regulations.

Central Virginia Community College Response:

The Office of Financial Aid had always used the last date of classes in the calculation of Title IV refunds. 34 CFR Section 668.3 allows institutions to determine what date to use in the calculation of Title IV refunds as long as it is consistent. This procedure was consistent for all students. The Financial Aid Office Manager and the Admissions & Records Office Manager did change the practice effective August 23, 2006 to use the last day of exams as the last date of enrollment.

For enrollment, the current process is done by electronically submitting a file that comes out of the Student Information System/PeopleSoft to the National Student Loan Clearing House that includes all of our enrollment information. Effective January 10, 2007, the Admissions & Records Manager created written policies and procedures for electronically submitting enrollment information to the NSLC three times each semester. The Admissions and Records Manager completed the formal written policy and procedures manual by July 18, 2007.

Effective January 4, 2007, the Financial Aid Manager and Admissions and Records Manager will review the critical dates for each semester to ensure accuracy and preparation for Title IV calculations and financial aid calculations. Beginning January 4, 2007, the Financial Aid Manager reviewed critical dates submitted by the Admissions and Records Manager; however, those dates did not correspond to the dates used by the Department of Education. Therefore, the Financial Aid Manager runs reports for students for comparison purposes using dates given by the Department of Education and PeopleSoft for comparison purposes.

Reports were on file supporting the amounts reported in the 2005-2006 Fiscal Operations Report and Application to Participate. The distribution grids that were used were in electronic form in Peoplesoft and copies were not in the file when requested by the auditors. Effective October 1, 2006, the Financial Aid Officer will attach paper copies to each years FISAP. Beginning October 1, 2006, distribution grids and all other data were printed and placed together in one file in the Financial Aid Office.

There are currently written policies and procedures pertaining to all financial aid processes in the hands of each Financial Aid Office personnel. However, the Financial Aid Officer produced an in-depth Office

Procedures Manual to document all functions for training and use by Financial Aid Staff Members. As of July 18, 2007, the Financial Aid Officer completed the in-depth policy and procedures Manual for student financial aid processes.

The Financial Aid Officer will use the PeopleSoft system to check the accuracy of the Department of Education Title IV software calculations and vice versa followed by the timely issuance of reports and refunds. This process has been in place since January 4, 2007.

The Vice President for Academic Affairs and Student Services will monitor business operations and internal controls of the Financial Aid Office to ensure compliance with Federal regulations on a weekly basis. This process has been in place since January 4, 2007.

Report Payment Data to NSLDS Timely

Applicable to: Central Virginia Community College
Virginia Highlands Community College

During fiscal year 2006, Central Virginia and Virginia Highlands Community Colleges did not report payment information to the National Student Loan Data System (NSLDS) timely. During the audit, we found that Central Virginia reported payment data for all three students tested more than five days after the 45-day period. Central Virginia reported student data to NSLDS 39 to 59 days past due. Virginia Highlands reported payment data for three out of six students more than five days after the 45-day period. Virginia Highlands reported student data to NSLDS 11 to 17 days past due.

According to 34 CFR 668.22(h)(4), the institution must report overpayments to NSLDS within a few days of the end of the 45-day period.

The Student Financial Aid Offices at Central Virginia and Virginia Highlands should enhance existing procedures to ensure timely reporting to NSLDS. The Financial Aid Office should ensure that personnel adhere to established procedures and perform reviews. Not updating student status changes within the required guidelines could impact a student's Title IV eligibility.

***Central Virginia Community College Response*:**

Effective August 23, 2006, the Financial Aid Manager will assure that all students in overpayment will be placed on a monitoring system that will alert the Financial Aid staff to ensure that the 45-day period has not elapsed. Effective September 10, 2006, The Financial Aid Manager had placed all students in overpayment on the monitoring system.

***Virginia Highlands Community College Response*:**

Management agrees with the findings of the audit that data was submitted to the National Student Loan Data System (NSLDS) in an untimely manner and that 34 CFR 668.22(h)(4) requires VHCC to report overpayments within a few days of the 45-day period. The late submission was due to an extended absence of the primary staff member responsible for completing this task. This audit has revealed that a weakness existed in the cross training of financial aid staff members. To ensure that VHCC is in compliance, the following action plan was implemented effective with the summer semester 2006. The Director of Admissions, Records, and Financial Aid now requires that the Financial Aid Officer ensure that all full-time staff members in the Office of Financial Aid be cross-trained to ensure that in the absence of the staff member *responsible for the task (Financial Aid Advisor, position number 19013), the NSLDS data will be updated to ensure timely reporting. The Financial Aid Advisor will remain the primary staff member responsible for completing this task and the Financial Aid Officer will be responsible for ensuring that the task is completed in accordance with 34 CFR 668.22(h)(4). The Financial Aid Officer will also be responsible for ensuring that all full-time financial aid staff members are cross-trained. The Director of Admissions, Records, and Financial Aid will monitor existing procedures and data submissions to prevent future occurrences.*

Report Payment Data to COD Timely

Applicable to: Central Virginia Community College

During fiscal year 2006, Central Virginia Community College reported payment data to the Common Origination and Disbursement (COD) files in an untimely manner. During the audit, the auditor found that Central Virginia did not report funds for all 30 students tested to COD within a 30-day period. Central Virginia did not adjust these student accounts after disbursing funds. In addition, the auditor determined that COD disbursement dates and fund amounts did not match to PeopleSoft for any of the 30 students tested.

According to 34 CFR 690.83, Central Virginia must report student payment data to the Common Origination and Disbursement files within 30 calendar days: 1) after the college makes a payment, or 2) becomes aware of the need to make a change on previously submitted student payment data.

Central Virginia should comply with the 30 day regulation set forth by the Department of Education. The Student Financial Aid Office should enhance existing policies and procedures to ensure timely reporting to COD. The Student Financial Aid Office should reconcile and update the COD and PeopleSoft Pell data monthly.

***Central Virginia Community College Response*:**

Effective August 23, 2006, The Financial Aid Officer will submit Originations and Disbursements 7 days prior to the time funds are needed. After disbursements, student accounts will be reviewed for adjustments by the Financial Aid Officer. This procedure was completed by the Financial Aid Officer Fall 2006.

Properly Calculate Title IV Refunds and Return Funds Timely

Applicable to: Central Virginia Community College

During fiscal year 2006, Central Virginia Community College's internal controls in the Student Financial Aid (SFA) Office did not ensure accuracy in Title IV reporting and timely return of funds to the Department of Education. Based on student samples for fall 2005 and spring 2006, we found that Central Virginia charged 15 out of 20 (75 percent) students the full amount of Pell overpayment rather than the 50 percent for which Title IV regulations hold them responsible. Central Virginia's calculation required students to return $1,953 more in aid than the regulations require. In addition, for one student for fall 2005, the Financial Aid Officer used the institution determination date rather than the date of withdrawal for computing the Title IV calculation and reversed the earned and unearned aid percentages thus causing the Title IV calculation outcome to be incorrect and reversed. As a result, Central Virginia did not return the correct amount of funds to the Department of Education.

Secondly, based upon student samples tested for spring 2006, Central Virginia did not return funds for six out of 10 (60 percent) students timely to the Department of Education. Central Virginia returned funds from two to 19 days late. There are no questioned costs reported because the colleges have returned all identified funds or the amount was less than $10,000.

According to 34 CFR 668.22 and the Student Financial Aid Handbook, the student must return or repay any unearned aid to the Title IV grant program as an overpayment of the grant except that, to assist with expenses that may have already been paid by the student, the student may keep 50 percent of the grant assistance that (s)he would have otherwise been required to pay. The institution must return the Title IV funds for which it is responsible as soon as possible, but no later than 30 days after the date of the institution's determination that the student withdrew.

The Financial Aid Officer should establish formal policies and procedures for student financial aid operations, enhance existing internal controls to ensure accuracy in reporting Title IV data, and ensure the return of all Title IV funds to the Department of Education within the specified guidelines. The Financial Aid Officer should properly define and disseminate the policies and procedures and monitor controls to ensure that financial aid staff adhere to the controls.

A failure to comply with the Federal regulations and the Student Financial Aid Handbook could significantly affect those students involved in the Title IV process as well as financial aid available for disbursement to other eligible students.

<u>Central Virginia Community College Response:</u>

The Financial Aid Officer will use functionality provided by the Department of Education software and PeopleSoft to double check accuracy of calculations followed by the timely issuance of reports and refunds. The policies governing refunds and repayments for Title IV are already disseminated and published in the Guide to Financial Aid Awards that is available to students, staff, and other interested parties. This procedure was put into place by the Financial Aid Officer effective January 4, 2007.

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